

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 92-602-E - ORDER NO. 92-1025 ✓
DECEMBER 3, 1992

IN RE: Carolina Power & Light Company -)	ORDER GRANTING
Application for Authority to)	AUTHORITY TO ISSUE
Issue and Sell Additional)	AND SELL ADDITIONAL
Securities (Long-Term Debt and)	SECURITIES (LONG-
Common Stock))	TERM DEBT AND COMMON
)	STOCK)

This matter comes before the Public Service Commission of South Carolina (the Commission) upon Application of Carolina Power & Light Company (Company), filed on November 16, 1992, requesting authority to issue and sell additional securities in the form of long-term and common stock.

FINDINGS OF FACT

1. The Company's correct name and post office address is Carolina Power & Light Company, Post Office Box 1551, Raleigh, North Carolina 27602. The name and post office address of its attorneys are Adrian N. Wilson and Patricia Kornegay-Timmons, Post Office Box 1551, Raleigh, North Carolina 27602. The Company is a corporation organized and existing under the law of the State of North Carolina, with its principal office at 411 Fayetteville Street, Raleigh, North Carolina, where it is engaged in the business of generating, transmitting, delivering and furnishing electricity to the public for compensation.

2. The Company's capital stock outstanding at September 30, 1992 consisted of Common Stock with a stated value of \$1,622,277,000 and Preferred Stock having a stated value of \$238,118,000. As of September 30, 1992, the retained earnings of the Company were \$1,149,247,000.

The Company's existing long-term debt at September 30, 1992 amounted to principle amounts of \$2,416,195,000 in First Mortgage Bonds and \$500,122,000 in other long-term debt. The First Mortgage Bonds were issued under and pursuant to an Indenture of Trust dated as of May 1, 1940, duly executed by the Company to The Bank of New York (formerly Irving Trust Company), as Corporate Trustee, and Frederick C. Herbst, as Individual Trustee, succeeded by W. T. Cunningham, who presently is acting as Individual Trustee, as supplemented by fifty-six Supplemental Indentures.

3. The Company presently projects that its capital requirements will total approximately \$652 million in 1992 and \$633 million in 1993.

4. Pursuant to the provisions of its Charter and for the purposes hereinafter stated, the Company proposes to issue and sell additional long-term debt in an amount not to exceed \$350 million, up to \$150 million of which could be issued in the form of convertible First Mortgage Bonds. The Company also has \$50 million in long-term debt available for issuance pursuant to Order of this Commission dated May 21, 1992 in Docket No. 92-233-E, and Registration Statement No. 33-48607 on Form S-3 filed on June 15, 1992 with the Securities and Exchange Commission. Together with

the amount of additional long-term debt proposed in this Application, the Company would have available for issuance an aggregate of \$400 million in long-term debt.

5. The Company will consider the issuance of First Mortgage Bonds, convertible First Mortgage Bonds, debt instruments sold to European investors ("Eurobonds") or unsecured debt. The Company continuously monitors rates, terms and conditions for alternative forms of debt financing and will determine which type of security offers the most favorable terms to the Company. In general, the Company will only consider issuing additional long-term debt for refunding purposes when the new issue can be priced at least .5% below the break-even rate of the issue to be refunded and if the refunding yields net present value savings of \$500,000 or more. (Break-even rate includes consideration of call premium and issuance expenses.)

6. The Company proposes to issue additional long-term debt either in discrete financing transactions or pursuant to a continuous offering program ("Secured Medium-Term Note Program"). Under a Secured Medium-Term Note Program, First Mortgage Bonds which will be referred to for marketing purposes as secured medium-term notes would be continuously offered and issued in an amount deemed appropriate and necessary by the Company but in no event exceeding the amount authorized pursuant to the Application. The Secured Medium-Term Note Program, if implemented, would be similar to the secured medium-term note offerings previously authorized by this Commission.

7. Convertible First Mortgage Bonds would offer the holders of these bonds the option to convert the bonds into shares of the Company's Common Stock, as contemplated by the terms of the Supplemental Indenture attached to the Company's Application as Exhibit A. The conversion price reflected in the terms of the conversion option is set by the Company's Board of Directors or Executive Committee at a premium over the market price of the Company's Common Stock at or about the time the Company signs an agreement with respect to the sale of such convertible First Mortgage Bonds. Convertible First Mortgage Bonds may be offered at a substantial discount from their principal amount at maturity and, if so, will bear interest at a fixed rate. Assuming that such bonds are retired at maturity, the effective per annum interest cost to the Company of such bonds, under current market conditions, would be approximately 50 basis points less than the effective per annum interest cost of First Mortgage Bonds without a conversion option.

8. In order to have an adequate number of shares of its Common Stock authorized by this Commission for issuance upon a possible conversion of the convertible First Mortgage Bonds, the Company proposes that the Commission authorize and approve the issuance of that number of additional shares of the Company's Common Stock as is necessary to enable the Company to fulfill its obligation to convert the convertible First Mortgage Bonds into Company Common Stock. The Company expects that not more than 2,500,000 additional shares of Common Stock will be needed for this

purpose subject to such adjustments as are contemplated by Section 9 of Article IV of the form of Supplemental Indenture to the Company's Mortgage and Deed of Trust filed as Exhibit A attached to the Company's Application.

9. The Company proposes to enter into negotiations with investment bankers or other financial institutions to act as agents, dealers, underwriters, or direct purchasers of either the public or private offering of the First Mortgage Bonds in accordance with the terms of an underwriting or purchase agreement in the case of a discrete financing or a sales agency or distribution agreement in the case of a Secured Medium-Term Note Program in a form similar to that attached to the Company's Application as Exhibit B or Exhibit C, respectively. Both the interest rate and the conversion rate (if applicable) will be determined by the Company at or prior to the sale of the bonds. The Company intends to determine the method of sale and the financial institution(s) which will offer the most favorable terms to the Company.

10. The Company estimates that it will incur expenses, excluding underwriting fees, in the range of approximately \$250,000 in connection with a private placement of debt securities or a public offering of the First Mortgage Bonds. Underwriting fees may vary significantly depending on the terms of the offering.

11. The Company's First Mortgage Bonds will be sold under the provisions of the Company's Mortgage and Deed of Trust dated as of May 1, 1940. The Company has a right to sell additional First Mortgage Bonds of any one or more Series on the basis of property additions, other than funded property as defined in Section 5 of Article 1 of the said Mortgage and Deed of Trust, for a principal amount not exceeding seventy (70) percentum of the cost or fair value thereof to the Company whichever is less. The Company has sufficient property additions to support the issuance and sale of the First Mortgage Bonds described above for the purposes set forth above.

12. For any First Mortgage Bonds sold, the Company proposes to create, execute and deliver additional Supplemental Indentures to the Mortgage and Deed of Trust dated as of May 1, 1940, to the Bank of New York (formerly Irving Trust Company) and Frederick G. Herbst (W. T. Cunningham, Successor), as Trustees, such additional Supplemental Indentures to be substantially in the form attached to the Company's Application as Exhibit A.

13. The Company is in the process of filing a Registration Statement with the Securities and Exchange Commission in connection with any future public issuance of additional long-term debt as described herein.

14. In the period from April 1, 1992 through September 30, 1992, the Company's construction expenditures for additional electric plant facilities totaled \$133,061,000. Attached to the Company's Application as Exhibit D is a statement of such

construction expenditures on which the source of funds for the payment thereof is shown.

15. Pursuant to Order No. 91-72 in Docket No. 91-032-E, the Company responded to each of the questions listed in the Order as follows:

- a. The effects of the proposed financing on the income statement and balance sheet of the Company are shown in Exhibit E attached to the Company's Application.
- b. The net proceeds to be received from the proposed issuance of additional long-term debt will be used for (i) the Company's ongoing construction and maintenance program, (ii) general corporate requirements including the repayment of short-term borrowings, and (iii) the refunding of outstanding issues of First Mortgage Bonds and/or preferred stock having rates higher than market rates determined at the time of sale of additional long-term debt securities.
- c. If the proposed issuance and sale of additional long-term debt is not approved on the conditions set forth above, the Company will be unable to finance its capital needs on a timely basis resulting in excess short-term debt and poor liability management. If approval is delayed, the Company may not be able to take advantage of financial market opportunities resulting in higher costs to the Company and its ratepayers.

- d. The expected effective interest rate of the additional long-term debt issuance will depend upon market conditions and the terms of the offering at the time the debt is issued.
- e. The issuance of long-term debt benefits the Company by enabling it to achieve the purposes set forth in subsection b. above. Under certain market conditions, the issuance of convertible First Mortgage Bonds would also benefit the Company because, assuming that such bonds are retired at maturity, the effective per annum interest cost to the Company of such bonds would be less than the effective interest cost of First Mortgage Bonds without a conversion option. In exchange for the lower interest rate, bondholders receive an option to convert their bonds into shares of the Company's Common Stock. The underwriting expenses for traditional First Mortgage Bonds will depend upon market conditions and the terms of the offering at the time the debt is issued. The underwriting expenses for traditional First Mortgage Bonds will depend upon market conditions and the terms of the offering at the time the debt is issued. The underwriting expense for a discounted convertible debt financing is expected to be approximately 1.6% of the face amount of the bonds.
- f. The impact of the proposed financing on the Company's capital structure at September 30, 1992, is shown below.

Actual amounts are reflected in the "Per Books" column and adjusted amounts, which include the effects of the proposed financing, are reflected in the "As Adjusted" column.

	<u>Per Books</u>	<u>As Adjusted</u>
Common Stock Equity	47.40%	43.19%
Preferred Stock-Redemption Not Required	2.70	2.46
Long-Term Debt	<u>49.90</u>	<u>54.35</u>
Total	<u>100.00%</u>	<u>100.00%</u>

16. Approval of this Application does not bind the Commission as to the ratemaking treatment of this issuance.

17. This Order shall not, in any way, affect or limit the right, duty, or jurisdiction of the Commission to further investigate and order revisions, modifications, or changes with respect to any provision of this Order in accordance with the law.

CONCLUSIONS OF LAW

From a review and study of the Application, its supporting data and other information in the Commission's files, the Commission finds that the proposed issuance and sale of additional long-term debt of not more than \$350 million, up to \$150 million of which could be issued in the form of convertible First Mortgage Bonds, and the possible issuance of that number of additional shares of Company Common Stock as is necessary to enable the Company to fulfill its obligations to convert any convertible First Mortgage Bonds into Company Common Stock in the event a holder exercises the conversion option:

- (i) Are for a lawful object within the corporate purposes of the Company;
- (ii) Are compatible with the public interest;
- (iii) Are necessary and appropriate for and consistent with the proper performance by the Company of its service to the public as a utility;
- (iv) Will not impair the Company's ability to perform its public service; and
- (v) Are reasonably necessary and appropriate to provide adequate funds for such corporate purposes.

IS IT THEREFORE ORDERED:

That Carolina Power & Light Company be and hereby is authorized, empowered and permitted to (i) issue and sell additional long-term debt not to exceed \$350 million, up to \$150 million of which could be issued in the form of convertible First Mortgage Bonds, and (ii) issue that number of additional shares of Company Common Stock as is necessary to enable the Company to fulfill its obligations to convert any Convertible First Mortgage Bonds into such Common Stock in the event a holder exercises the conversion option, all pursuant to terms and conditions described herein, at such times as the Company may deem necessary or advisable, and to execute and deliver such instruments, documents or agreements as shall be necessary or appropriate to effectuate such transaction or transactions.

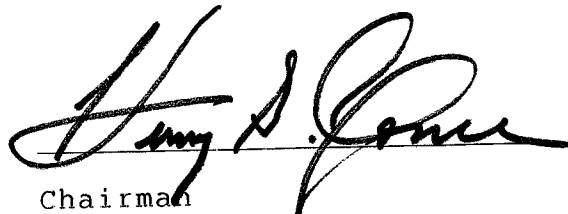
IT IS FURTHER ORDERED THAT:

1. Approval of this Application does not bind the Commission as to the ratemaking treatment of this issuance.


2. This Order shall not, in any way, affect or limit the right, duty, or jurisdiction of the Commission to further investigate and order revisions, modifications, or changes with respect to any provision of this Order in accordance with the law.

3. That this Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:


Chairman

ATTEST:


Deputy Executive Director

(SEAL)